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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of
July 13-17, 2009

REFTEL: NEW DELHI 1401

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of July 13-17, 2009, including the
following:

- Informal WTO Talks to be Held in September
- EGoM to Help Steer the Long Delayed 3G Spectrum Auction
- Adequacy of India's Foreign Exchange Reserves

- Cabinet Committee on Infrastructure Established
- GOI Considers Regulatory Body for Biologics Sector
- Pawar on Biotech Foods in India
- Minister of Steel Wants to Limit Iron Ore Exports
- India Rejects Novartis Patent for Cancer Drug Glivec
- Industrial Production Points to Recovery

Informal WTO Talks to be Held in September

¶2. (U) In a bid to revive the stalled Doha Round of trade talks,
India has sent invitations to key World Trade Organization (WTO)
Trade Ministers for initiating an "informal round" of talks in New
Delhi in the first week of September. WTO Director-General Pascal
Lamy will attend the talks, which seek to bridge gaps between
developing and developed countries on market access issues.
Commerce and Industry Minister Anand Sharma - at his recent meeting
with world leaders during the Cairns Group meeting at Bali, and with
USTR Kirk in Washington late last month - has stated that India is
committed to breaking the impasse in the Doha Round of trade talks.
Official sources have told media that the meeting would comprise
ministers from the member countries of the G20 (a grouping of
developing nations with offensive interests in agriculture, not to
be confused with the Group of Twenty countries that will meet in
Pittsburgh September 25-25) as well as some members of the G-33 (an
alliance of emerging economies with a defensive interest in
agriculture).

EGoM to Help Steer the Long Delayed
3G Spectrum Auction

¶3. (U) The Government of India announced the establishment of a nine-member Empowered Group of Ministers (EGoM) on July 13 to resolve issues blocking the auction of third generation (3G) spectrum services. The EGoM will be headed by Finance Minister Pranab Mukherjee and include Defence Minister AK Antony, Telecom Minister A Raja, Agriculture Minister Sharad Pawar, Law Minister Veerappa Moily, Information and Broadcasting Minister Ambika Soni, Planning Commission Deputy Chairman Montek Singh Ahluwalia, and Minister of State in the Prime Minister's Office Prithviraj Chavan. The EGoM will decide on the quantum of 3G spectrum to be auctioned, annual spectrum charges, additional administrative charges and the reserve price for 3G and Broadband Wireless Access (BWA) spectrum. It will also examine spectrum and allocation of band for Evolution Value Data Optimised (EVDO), a high-end data application service, which India hopes to roll out in the near future.

¶4. (U) The Prime Minister met with Telecom Minister A. Raja and Finance Minister Pranab Mukherjee in June and decided to double the 3G auction reserve price from Rs 2,020 to Rs 4,040 crore. The three also decided to permit up to seven operators (including BSNL and MTNL) per circle to offer 3G services. By doing so, GoI is hopeful that about Rs 35,000 crore (\$7.2 billion) may be raised from the auction of 3G and WiMAX spectrums. With the establishment of the EGoM, government officials reportedly hope to avoid controversies that may hinder the already complex process. Wireless Advisor Ashok Chandra, at the Department of Telecom, confirmed that the EGoM will likely meet at the end of July. Chandra noted the Department is hopeful the 3G auction will commence by October or November this year. (Comment: Even if the EGoM is able to sort out the remaining issues and make a recommendation, the process would likely have to

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be endorsed by the Union Cabinet before the long-delayed auction can move forward. End Comment.)

Adequacy of India's Foreign Exchange Reserves

¶5. (U) The latest Reserve Bank of India (RBI) Report on Management of Foreign Exchange Reserves indicates that the import cover of foreign exchange reserves was down to 10.2 months at the end of March 2009 compared to 14.4 months at the end of March 2008. The import cover ratio has fallen in sync with foreign exchange reserves, which fell by \$57.7 billion to \$252 billion during the period from March 31, 2008, to March 31, 2009. (Note: On June 19, foreign exchange reserves stood at \$263.7 billion. End note.)

¶6. (U) In FY 2007-08, reserves rose by \$110.5 billion to \$286 billion. Since that period, reserves have declined primarily due to a valuation loss due to foreign exchange fluctuations. An outflow from foreign institutional investors was the other major source contributing to the fall in reserves. The ratio of short-term debt to forex reserves increased to 19.6 percent as of March 31, 2009 from 15.2 percent in the previous year. The ratio of volatile capital flows (defined as cumulative portfolio investments and short-term debt) to India's foreign exchange reserves increased to 51 percent at March 31, 2009 from 45.4 percent a year ago. Bankers quoted in local media noted that though the ratio has shot up in FY 2008-09, it is not a great concern as the outstanding level of foreign exchange level is robust. The RBI holds about 357 tons of gold forming 3.8 percent of the total reserves in value terms as at end March 2009.

Cabinet Committee on Infrastructure Established

¶7. (U) A 13-member Cabinet Committee on Infrastructure, headed by Prime Minister (PM) Manmohan Singh has been established to fast-track the implementation of infrastructure projects. In addition to PM Singh, Committee members include Finance Minister Pranab Mukherjee, Minister of Agriculture Sharad Pawar, Railways Minister Mamta Banerjee, Minister of Power Sushil Kumar Shinde, Minister of New and Renewable Energy Farooq Abdullah, Minister of Urban Development Jaipal Reddy, and others. The Committee will issue requests for proposals for infrastructure projects above Rs

150 crore (\$31 million) in various areas including energy, railways, roads, ports, airports, telecommunications, information technology, irrigation, housing and urban development sectors. The Committee will also suggest fiscal, financial, institutional and legal measures needed to enhance infrastructure investment, facilitate private investment, lay down performance targets and review the progress of the projects.

GOI Considers Regulatory Body for Biologics Sector

¶8. (U) India's Department of Biotechnology (DBT) officials have reportedly announced that the government is planning to formulate new guidelines for biologics and will set up a National Biotechnology Regulatory Board to specify and regulate the development of drugs and vaccines from natural sources such as humans, animals or micro-organisms. At present, both pharmaceutical products and biologics are regulated by the Drug Controller General of India (DCGI). (Note: Biotechnology is an emerging sector in India and major domestic biotech companies including Biocon, Wockhardt, and Panacea Biotech are engaged in manufacturing biologics such as insulin, monoclonal antibody products, and vaccines. End Note.) According to media reports, the new regulatory body will operate in the pre-clinical stage before applications are forwarded to the DCGI for final approval.

Pawar on Biotech Foods in India

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¶9. (U) Agriculture Minister Sharad Pawar announced in Parliament that the government of India (GOI) plans to introduce new genetically modified (GM) food crops in the country within the next three years. Pawar stated that the Indian Council of Agricultural Research and Department of Biotechnology has approved testing and development of three biotech crops (tomato, brinjal, and cauliflower) in institutes across India. At the conclusion of these tests, the final clearance for cultivation of GM varieties will be given by the Review Committee on Genetic Manipulation and the Genetic Engineering Approval Committee.

Minister of Steel Wants to Limit Iron Ore Exports

¶10. (U) In a bid to conserve raw material for domestic production, the Minister of Steel has told media that his Ministry is in favor of restricting iron ore exports. He added that the Steel Ministry would discuss the issue with both the Prime Minister and the Finance Minister in the near future. "Iron ore exports should be encouraged only in value-added form and that too in a limited quantity," the Minister opined at a press conference. "The government will ensure that reserves of iron ore are made available to domestic steel makers at reasonable prices."

¶11. (U) At present, iron ore lumps have an export duty of 5 percent while there is no duty on exports of refined iron ore. India produces approximately 200 million tons of iron ore every year, of which half is exported, with China as the major destination. The Steel Ministry has also formed a committee, which will consider possible restructuring and revival of public sector steel and iron ore companies. According to GOI estimates, India's steel production is expected to double to 124 million tons a year by 2011-12 from 65 million at present. This growth is related to massive expansion programs going on in both the public and the private steel sector. The Indian steel industry has largely been unaffected by the global meltdown and its steel consumption has increased.

India Rejects Novartis Patent for Cancer Drug Glivec

¶12. (U) The Intellectual Property Appellate Board (IPAB) rejected the grant of a patent for Glivec, a drug for cancer treatment developed by German multinational Novartis. Five pre-grant

oppositions were filed in the period May-July 2005 against the Glivec patent application. Novartis filed a writ petition challenging the constitutionality of Section 3(d) of the 1970 Patents Act before the Madras High Court. As a result, the Supreme Court ordered GOI to hire a technical member within the IPAB to judge the Novartis appeal to the five opposition orders of the Drug Controller of India that declined to pursue the patent application.

¶13. (U) On June 26, the IPAB ruled against the grant of the patent due to its lack of "significantly enhanced efficacy," claiming that only "therapeutic efficacy" qualified under Section 3(d) and properties claimed to be displayed by Glivec did not amount to an increase in "therapeutic efficacy". (Note: IPAB's decision stands in contrast to Glivec's approved patents in 35 countries. The court also did not accept additional supporting material from Novartis, stating that only material supplied on the date of applying for the patent could be considered while deciding the present challenge to the Controller's decision. End Note.)
Industrial Production Points to Recovery

¶14. (U) Industrial output rose by 2.4 percent in fiscal year 2008-09 (April-March), sharply lower than the 8.5 percent registered in FY 2007-08, as the global economic crisis and high interest rates hurt domestic demand and exports. Nevertheless, the latest data shows that the index of industrial production (IIP) improved to 2.7

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percent in May - the highest since September last year - fueling positive expectations that the economy has entered a recovery phase. This is also an improvement over April's revised growth of 1.2 percent, which was preceded by four successive months of negative growth.

¶15. (U) Manufacturing, which accounts for 80 percent of the IIP, grew by 2.5 percent in May over the same month of the previous year. A survey of 500 companies showed that manufacturing activity expanded for a third straight month in June. Cement production on growth remained robust at 10.8 percent in May and analysts expect cement prices to fall on the back of an unprecedented increase in capacity. The mining and electricity sector witnessed decent growth rates of 3.7 percent and 3.3 percent respectively in May compared to the corresponding period of last year.

¶16. (U) Consumer goods production grew by 1.2 percent (after three months of negative growth), primarily due to demand for consumer durables. Car sales, an indicator of consumer demand, rose by 7.8 percent in June, climbing for the fifth month, as lower tax rates and easier funding lured consumers. Intermediate and basic goods both were up 6.1 percent and 3.8 percent respectively in May. However, capital goods continued to fall for the third month in a row and in May declined 3.6 percent versus negative 7.6 percent in April 2009. Consumer non-durables declined 2.3 percent in May 2009, albeit lower than the 9.1 percent decline seen in April. (Note: Analysts expect further increases in industrial growth, averaging around 5 percent in FY 2009-10, due to an improvement in the investment climate, coupled with the government's focus on infrastructure development. The increase in production of consumer goods is possibly a result of the implementation of the Sixth Pay Commission, which increased disposable income and the National Rural Employment Guarantee Scheme which potentially resulted in increased rural demand. End Note.)

¶17. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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